

### Solid deterioration in business conditions during January

#### Key findings:

- **Headline PMI ticks up slightly to 46.5**
- **Output and new orders continue to contract**
- **Input prices fall for the first time in six months**

This report contains the latest public release of data collected from the monthly survey of business conditions in the Lebanese private sector. The survey, sponsored by Blominvest Bank and compiled by IHS Markit, has been conducted since May 2013 and provides an early indication of operating conditions in Lebanon. The headline figure derived from the survey is the *Purchasing Managers' Index™ (PMI®)*.

The PMI is a composite index, calculated as a weighted average of five individual sub-components: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

At 46.5 in January, up from 46.2 in December, the BLOM Lebanon PMI pointed to a softer deterioration in business conditions faced by Lebanese private sector firms. That said, the result extended the current sequence of decline to 67 months and was solid overall.

Contributing to the slower deterioration was softer output contraction at the start of 2019. However, the latest fall was still sharp overall, with panellists mentioning ongoing political and economic instability.

Similar to the trend for output, new orders fell at a slower rate in January. Nevertheless, the latest decrease in new work was

still sharper than the historical series average. Panellists blamed continued contraction on the current political impasse. New export orders at private sector firms in Lebanon fell during January. The result extended the current sequence of contraction to three-and-a-half years. The pace of decline did soften compared to December, however.

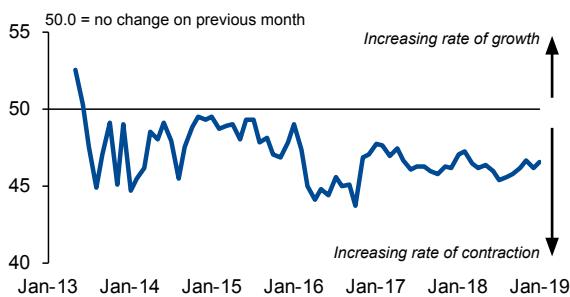
On the price front, input costs fell in January. The decline was broad-based, with reductions in purchasing prices and wages. The decrease in input prices was the first recorded since July 2018 and the most marked since data collection began.

The latest survey data also indicated that Lebanese private sector firms cut staff numbers during January. Although the decline was only fractional overall, it extended the current run of employment contraction to nearly a year.

Capacity pressures continued to moderate at private sector firms in the first month of 2019. Firms registered a solid decrease in backlogs of work, albeit one that was the softest for three months. Panellists suggested that further contraction was due to weak demand conditions.

Finally, Lebanese private sector firms were their least pessimistic towards the business outlook for 26 months in January. However, despite the degree of negativity softening, firms continued to mention anticipation for further economic and political instability.

Lebanon Purchasing Managers' Index™ (PMI®)



Purchasing Managers' Index			
		Unadj.	Seas. Adj.
2018	Nov	46.0	46.7
	Dec	46.8	46.2
2019	Jan	47.3	46.5

#### Index Summary

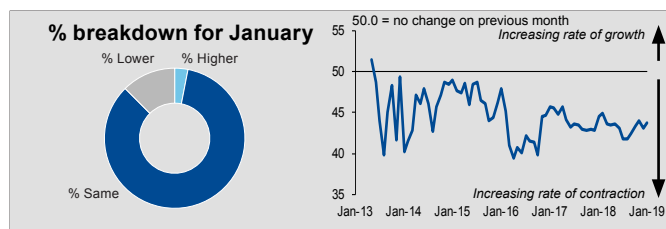
(seasonally adjusted, 50 = no change on previous month)

	PMI	Output	New Orders	Export Orders	Backlogs of Work	Employment	Output Prices	Overall Input Costs	Purchase Costs	Staff Costs	Delivery Times	Quantity of Purchases	Stocks of Purchases	Future Output
Nov'18	46.7	44.0	43.9	49.0	46.0	49.5	49.0	50.3	50.2	50.2	50.0	47.6	50.8	38.2
Dec	46.2	43.1	43.0	47.5	45.7	49.8	48.5	50.6	50.6	50.0	50.4	46.9	51.3	40.7
Jan'19	46.5	43.7	43.5	48.1	46.2	49.8	48.0	49.0	48.8	49.8	50.0	47.2	50.9	44.3

## Output Index

Q. Please compare your production/output this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Sep	2.1	79.9	18.1	-16.0	42.0	42.5
	Oct	1.6	82.5	15.9	-14.2	42.9	43.4
	Nov	1.4	82.6	16.0	-14.5	42.7	44.0
	Dec	3.8	79.9	16.3	-12.4	43.8	43.1
2019	Jan	3.0	84.5	12.4	-9.4	45.3	43.7

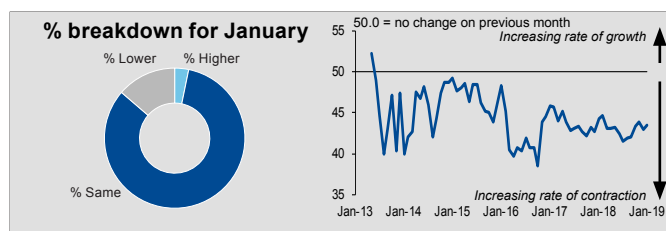


Private sector firms in Lebanon saw output fall for the sixty-eighth month in a row at the start of 2019. The latest contraction was sharp overall, with panellists continuing to suggest that political uncertainty was weighing on demand. That said, the pace of decline eased compared to December.

## New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Sep	1.9	79.6	18.5	-16.5	41.7	42.1
	Oct	1.6	82.6	15.8	-14.2	42.9	43.4
	Nov	1.6	81.8	16.6	-14.9	42.5	43.9
	Dec	4.0	79.6	16.5	-12.5	43.7	43.0
2019	Jan	3.2	83.1	13.7	-10.5	44.8	43.5

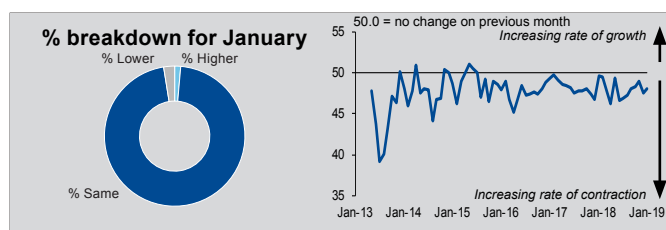


In line with the trend for output, new orders contracted during January. Although the reduction was sharp overall, the rate of contraction eased. Panellists frequently mentioned broad-based economic slowdown as a result of the current political impasse. Approximately 14% of survey respondents reported a fall in new work compared to around 3% that recorded a rise.

## New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Sep	0.9	95.5	3.6	-2.8	48.6	48.1
	Oct	0.0	94.8	5.2	-5.2	47.4	48.3
	Nov	1.5	93.2	5.3	-3.9	48.1	49.0
	Dec	1.5	91.3	7.2	-5.7	47.1	47.5
2019	Jan	1.4	96.1	2.5	-1.1	49.4	48.1

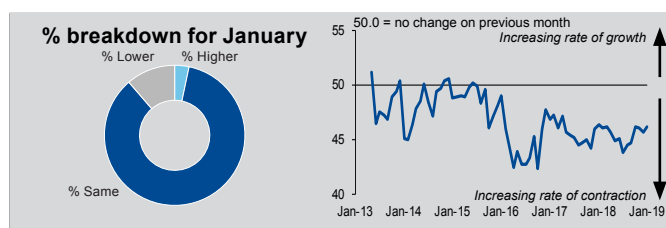


Contributing to new order decline was another contraction in new business from abroad. January's reduction was the forty-second in a row for Lebanese private sector firms. However, the pace of decline softened compared to December, with firms registering only a moderate fall overall.

## Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Sep	2.8	84.7	12.5	-9.7	45.2	44.7
	Oct	2.8	86.7	10.5	-7.8	46.1	46.2
	Nov	2.0	86.8	11.2	-9.2	45.4	46.0
	Dec	4.9	84.9	10.2	-5.3	47.3	45.7
2019	Jan	3.3	85.4	11.3	-8.0	46.0	46.2

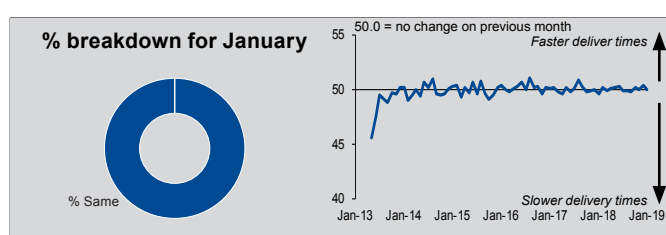


Amid widespread panellists reports of a weak demand environment, volumes of incomplete business fell in January. The latest decline extended the current sequence to 43 months. However, although the contraction was solid overall, the pace of backlog depletion was the joint-softest for a year.

## Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

		Faster %	Same %	Slower %	Net +/-	Index	S.Adj. Index
2018	Sep	0.0	100.0	0.0	0.0	50.0	49.8
	Oct	0.0	100.0	0.0	0.0	50.0	50.2
	Nov	0.0	100.0	0.0	0.0	50.0	50.0
	Dec	0.0	100.0	0.0	0.0	50.0	50.4
2019	Jan	0.0	100.0	0.0	0.0	50.0	50.0

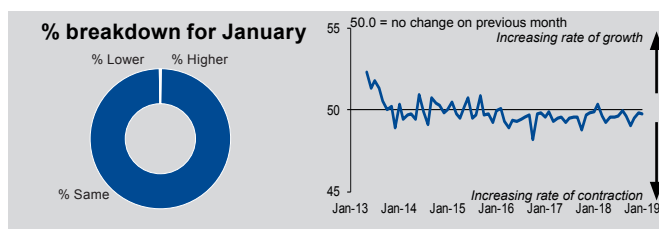


Vendor performance faced by Lebanese private sector firms was unchanged in January. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index registering at the crucial 50.0 no-change mark. The latest result means average lead times have not increased since September 2018.

**Employment Index**

Q. Please compare the level of employment at your unit with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2018</b>	Sep	0.1	98.7	1.2	-1.0	<b>49.5</b>	<b>49.6</b>
	Oct	0.0	97.4	2.6	-2.6	<b>48.7</b>	<b>49.1</b>
	Nov	0.3	99.3	0.4	-0.1	<b>50.0</b>	<b>49.5</b>
	Dec	0.9	99.0	0.1	+0.9	<b>50.4</b>	<b>49.8</b>
<b>2019</b>	Jan	0.2	99.5	0.2	0.0	<b>50.0</b>	<b>49.8</b>

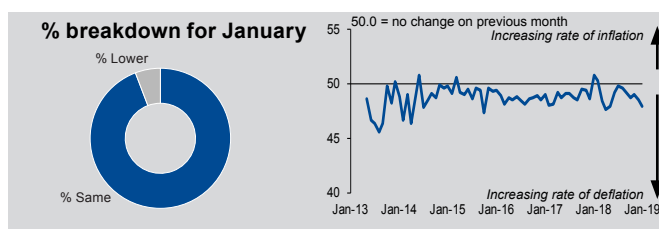


Lebanese private sector firms saw a fractional reduction in staff numbers during the first month of 2019. This was signalled by the seasonally adjusted Employment Index registering just below the crucial 50 no-change mark. The latest fall in employment extended the current run to nearly a year.

**Output Prices Index**

Q. Please compare the average prices you charged this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2018</b>	Sep	0.4	97.1	2.4	-2.0	<b>49.0</b>	<b>49.2</b>
	Oct	0.7	97.0	2.3	-1.5	<b>49.2</b>	<b>48.7</b>
	Nov	0.0	99.3	0.7	-0.7	<b>49.7</b>	<b>49.0</b>
	Dec	0.0	98.0	2.0	-2.0	<b>49.0</b>	<b>48.5</b>
<b>2019</b>	Jan	0.0	94.2	5.8	-5.8	<b>47.1</b>	<b>48.0</b>

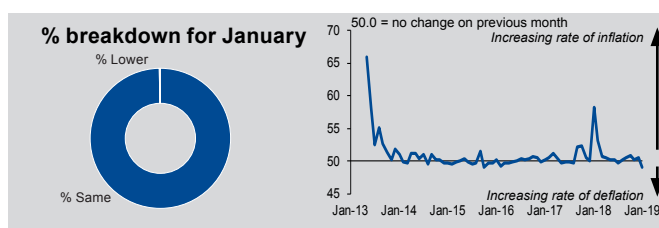


January data pointed to a fall in charges set by private sector firms in Lebanon. Moreover, the pace of decline accelerated to the fastest for eight months. Many panellists suggested that cuts to output prices were an attempt to gain market share amid the weak demand environment.

**Overall Input Prices Index**

Q. Please compare your overall average input prices this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2018</b>	Sep	1.7	98.3	0.0	+1.7	<b>50.8</b>	<b>50.5</b>
	Oct	1.5	98.5	0.0	+1.5	<b>50.7</b>	<b>50.9</b>
	Nov	0.2	99.5	0.3	-0.1	<b>49.9</b>	<b>50.3</b>
	Dec	0.4	99.6	0.0	+0.4	<b>50.2</b>	<b>50.6</b>
<b>2019</b>	Jan	0.0	99.7	0.3	-0.3	<b>49.9</b>	<b>49.0</b>

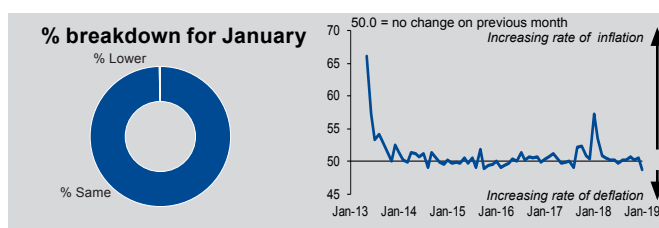


Overall input prices faced by Lebanese private sector firms also fell in the first month of 2019. The contraction was the first since July 2018 and driven by declines in both purchasing prices and wages. Although only marginal, the rate of decline was the quickest observed since the series began in May 2013.

**Input Costs: Purchase Prices Index**

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2018</b>	Sep	1.7	98.3	0.0	+1.7	<b>50.8</b>	<b>50.3</b>
	Oct	1.5	98.5	0.0	+1.5	<b>50.8</b>	<b>50.8</b>
	Nov	0.2	99.5	0.3	-0.1	<b>49.9</b>	<b>50.2</b>
	Dec	0.4	99.6	0.0	+0.4	<b>50.2</b>	<b>50.6</b>
<b>2019</b>	Jan	0.0	99.7	0.3	-0.3	<b>49.9</b>	<b>48.8</b>

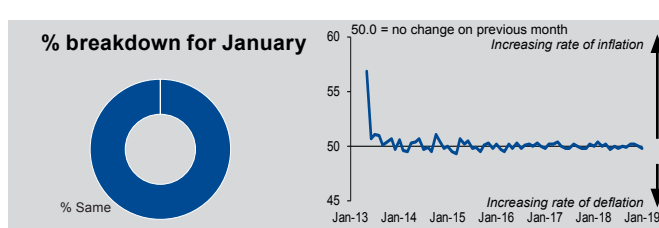


Similar to the overall trend for input prices, purchasing costs faced by Lebanese private sector firms fell in January. This was signalled by the seasonally adjusted Purchase Prices Index registering below the 50.0 no-change mark. Prices paid contracted for the first time in six months, although the decline was only moderate overall.

**Input Costs: Staff Costs Index**

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
<b>2018</b>	Sep	0.3	99.7	0.0	+0.3	<b>50.1</b>	<b>49.9</b>
	Oct	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.2</b>
	Nov	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.2</b>
	Dec	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>50.0</b>
<b>2019</b>	Jan	0.0	100.0	0.0	0.0	<b>50.0</b>	<b>49.8</b>

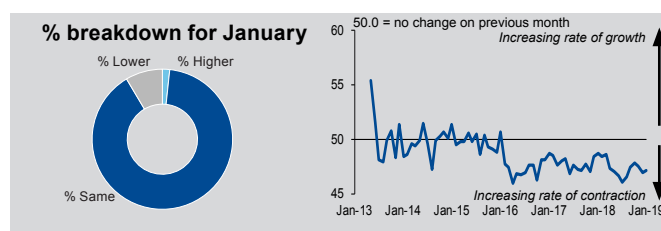


Following no change to staff costs in the final month of 2018, private sector firms in Lebanon reported a fractional decline in the first month of 2019. This was signalled by the seasonally adjusted Staff Costs Index registering below the neutral 50.0 mark. Although the contraction was the first since last September, it was softer than the historical average.

## Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Sep	4.2	88.2	7.6	-3.4	48.3	47.4
	Oct	3.3	88.4	8.3	-5.0	47.5	47.8
	Nov	2.0	90.4	7.6	-5.6	47.2	47.6
	Dec	3.4	88.5	8.1	-4.8	47.6	46.9
2019	Jan	1.7	89.8	8.5	-6.8	46.6	47.2

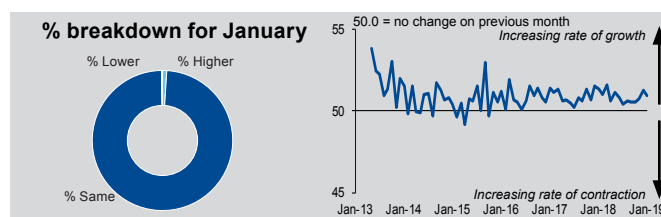


Purchasing activity at private sector firms in Lebanon continued to fall in January. The latest result extended the current sequence of decline to three years. Panellists suggested that the solid reduction was as a result of the weak demand environment. January's contraction was historically marked.

## Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Sep	2.6	97.3	0.2	+2.4	51.2	50.6
	Oct	1.7	97.8	0.5	+1.3	50.6	50.5
	Nov	1.6	98.4	0.0	+1.6	50.8	50.8
	Dec	3.6	96.4	0.1	+3.5	51.7	51.3
2019	Jan	1.0	98.8	0.2	+0.8	50.4	50.9

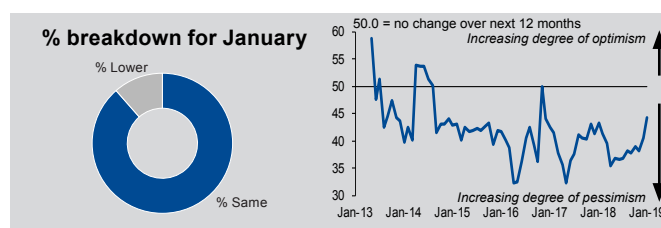


Despite a fall in input buying, firms reported a rise in inventories during January. This was signalled by the seasonally adjusted Stocks of Purchases Index registering above the 50.0 no-change mark. The latest expansion was marginal overall and extended the current sequence of growth to 39 months.

## Future Output Index

Q. In 12 months' time do you expect the overall volume of output to be higher, the same or lower than now?

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2018	Sep	2.8	70.0	27.2	-24.4	37.8	n/a
	Oct	3.3	71.4	25.2	-21.9	39.1	n/a
	Nov	0.0	76.4	23.6	-23.6	38.2	n/a
	Dec	0.0	81.3	18.7	-18.7	40.7	n/a
2019	Jan	0.0	88.6	11.4	-11.4	44.3	n/a



January data pointed to continued pessimism towards the business outlook among private sector firms in Lebanon. Negative sentiment has now been recorded in each month since September 2014. Some panellists suggested that the current political and economic instability would continue to weigh on demand. The latest results did however point to the softest level of negativity for 26 months.

## Notes on the Data and Method of Presentation

The *Purchasing Managers' Index™* is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the Lebanese economy, including manufacturing, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP, and by company workforce size. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index (PMI®)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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